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TAGS: PGOV ECON EFIN AR

SUBJECT: Argentina: First Husband's Dollar Purchases Revealed,
Scrutinized

REF: BUENOS AIRES 25; BUENOS AIRES 13

CLASSIFIED BY: Tom Kelly, DCM; REASON: 1.4(B), (D)

¶1. (SBU) Summary: Following a late January press reports that presidential spouse Nestor Kirchner (NK) had purchased just under US\$ 2 million in US currency in October 2008 -- confirmed by GOA sources February 1 -- opposition politicians and political commentators have raised a new alarm about alleged illicit enrichment by the first couple. At issue is whether NK and President Cristina Fernandez de Kirchner (CFK) may have benefitted from currency fluctuations based on their ability to affect or at a minimum better anticipate changes in the exchange rate based on "inside information." Many legal scholars have since been quoted in the press expressing doubt that grounds exist for criminal charges against the NK, but many lament what could be a serious ethics breach. In an unprecedented email issued by the Casa Rosada in the name of NK on February 2, the former President says that he used the dollars to complete a hotel purchase in Santa Cruz province a couple of weeks later; accusations that he benefitted from the dollar's subsequent rise against the peso, he argues, are therefore groundless. The scandal has the potential to cause the first couple further political damage. End Summary.

Dollar Purchases Revealed

¶2. (U) The issue of currency purchases by members of the Kirchner Administration came to the fore amidst the ongoing saga surrounding the replacement of Central Bank President Martin Redrado (refs A and B). According to Clarin, Redrado on January 24 had threatened to reveal "lists of the friends of power who have bought dollars." The implication of impropriety brought a sharp response from Cabinet Chief Anibal Fernandez, who pointed out that Redrado was obligated to reveal any information he might have on illicit activities in any case. Redrado's lawyer soon denied his client had made the statement to Clarin in the first place, though the newspaper is sticking to its story.

¶3. (U) On January 28 a website and then press reported details on dollar purchases, with daily Clarin giving most attention given to purchases of almost US\$ 2 million by former President/first spouse Nestor Kirchner (NK) in October 2008. Other politicians and friends of the Kirchners were also listed as making major purchases, including Buenos Aires Governor Daniel Scioli, Tucuman Governor Jose Alperovich, and labor leader Hugo Moyano. On February 1, Cabinet Chief Fernandez and Economy Minister Amado Boudou acknowledged NK's foreign exchange purchase but noted that it was entirely legal, within the laws allowing citizens to

purchase up to US\$ 2 million during a month. CFK made similar public comments. Still, press articles emphasized that the peso declined significantly against the dollar in October 2008 and in subsequent months, suggesting that NK and his allies had purchased the dollars for gain.

¶4. (SBU) "La Nacion" presented its own analysis on February 2, saying that between 2005 and 2008 NK had made currency purchases that would have produced U.S. 1,681,903 in profit since then. The article, by Gabriel Sued, suggests profits based on year-to-year exchange rate changes during each calendar year, but lacks details on exact dates of purchases, suggested dates of reconversion to pesos, and the amounts of the various purchases.

Criticism Follows

¶5. (SBU) The opposition immediately went on the attack, with Civic Coalition Deputy Juan Carlos Moran saying he would pursue criminal charges. Although he acknowledged the purchase of currency was within the bounds of the law, he cited article 268 of the criminal code, which calls for up to six years in prison for "public officials" who utilized for personal gain privileged information E

obtained in their official capacity. Radical Deputy Ricardo Gil Lavedra called the alleged use of inside information an "enormously immoral" act.

¶6. (U) Prominent daily "La Nacion" on February 2 featured three columnists digging into the revelations. Journalist Daniel Della Costa noted that NK's flight to dollars just as the global economic crisis deepened did not reflect a particularly high regard for his wife's management of the economy. Manuel Garrido, head of the Transparency Program at the leading think tank CIPPEC (Center for the Implementation of Public Policies for Equality and Growth), noted the obvious concerns about objective economic policy making by a first couple with so much personal wealth apparently riding on currency rates. And columnist Marcos Aguinis cagily noted that the purchase of so many dollars by NK did not fit well with the "progressive" ideology he espoused.

Scholars Doubt There is a Case

¶7. (SBU) Most legal scholars raised doubts about whether a criminal case could be pursued against NK. The purchase itself was legal, they noted, and there was not yet any evidence of intervention to either move exchange rates or of NK's possession of particular inside information of a peso depreciation against the dollar. A smaller point was that NK was not, in fact, a public official. Nonetheless, the scholars all lamented a significant ethical failing. Large dollar purchases by someone so close to power and to policy information was a significant violation of public trust (moreover, some noted, NK was widely considered a key economic policy decision-maker for his wife's administration, even if the role was not formal).

A Plausible Explanation Emerges

¶ 8. (SBU) In an indication that the Kirchners under the political threat posed by the story, NK took the unprecedeted step of issuing his own explanation directly to the press in the form of an email on February 2. In the short but seemingly rational response to "bad intentioned" stories in the press, Kirchner said that on November 6, 2008, he had purchased significant equity in a hotel ownership entity, "Hotelsur, S.A.," which owned the Hotel Alto Calafate. To effect this purchase in dollars he had made three dollar currency purchases during the month of October. Because the dollars were almost immediately spent, he underscored, there was "no possibility of a profit on the currency" exchange.

Comment: A Nice Story if He Can Stick to It

¶ 9. (C) Although it does not explain away all of the dollar purchases alleged to have taken place since 2005, or his close allies' contemporaneous zeal for the greenback, NK's explanation of his October 2008 dollar purchase could enable him to dodge this bullet - if the details can be corroborated. The Argentine public, much of it still on summer vacation, could still come around to the currency purchases issue if further discrepancies arise, but NK's explanation may suffice to diminish the story's political durability. Nonetheless, NK's currency purchases, both as president and then as first spouse, will again remind the public of how much the Kirchners' wealth has grown since he took power in ¶ 2003. In a best-case scenario (for the Kirchners), the corruption and "illicit enrichment" charges may stall, and many Argentines may shrug their shoulders at behavior they have come to expect from those in power, but even then, we suspect it will create another negative notch in the Kirchners' public image leading up to 2011 national elections. In a worst-case scenario, this scandal could

irredeemably undermine the already devalued Kirchner currency.
MARTINEZ